Basic principles of investment in the economy of Uzbekistan

Baykonov Bahodirjon Tursunbaevich¹, Rakhmanov Adkham Mamatovich²

¹Associate Professor of Tashkent State Economic University Tashkent, Republic of Uzbekistan

²Head of Foreign Investments Division of the Investments and Foreign Trade Department of Namangan region, Namangan, Republic of Uzbekistan

Email: baykonov_b@umail.uz

ABSTRACT

The article describes scientific proposals and recommendations for investment in the economy of the Republic of Uzbekistan, improvement of their use and ways of their effective use. Theoretical and methodological and practical proposals and recommendations on the basic principles of investment in the economy of Uzbekistan are developed.

Keywords: investment, modernization, investment program, national economy, budget, non-state sector.

1. INTRODUCTION

Investment processes in each country, including the Republic of Uzbekistan, are implemented primarily through the development and planning of investment projects and their presentation to investors. It should be noted that the right decision in the allocation and allocation of investments is based on the analysis of the ratio of expected profit and risk. Therefore, when determining the nature of investments, it is important to take into account their risks and expected returns. The nature of the return on investment depends on the sources of their income and their proper allocation and direction. This means that there is a continuous link between the reliability of capital sources and the proper investment of funds.

Today it is advisable to use both internal and external sources of financing investment projects. In order to use internal and external sources of financing of investment projects in Uzbekistan, it is necessary to provide the legal and economic foundations of this sector, to study and to apply its undisclosed and unexplored aspects. As you know, there are various sources of investment financing.

In order to develop production in the Republic of Uzbekistan and integrate the manufactured products with the requirements of world standards, the state budget is currently financing a number of large industrial complexes. With the privatization expansion and the development of the private sector, investment from the state budget will decrease

In these cases, it is advisable to fund mainly the projects of medicine, health, science, culture, education and other social spheres. Examples include healthcare facilities, academic lyceums and vocational colleges, which have recently been established and commissioned in the country.

2. ANALYSIS AND RESULTS

The share of the state budget was 22.9% in 1995, and by 2017 this figure was down by 17.4% to 5.5%. A similar decrease in the share of corporate funds can be observed in 1995-2017 (Table 1).

According to Table 1, the decline in the share of state budget funds in total fixed capital investment has, of course, led to some positive trends in the economy, including a decrease in funds stagnation and an accelerated flow of funds.

Distribution of fixed capital investments by sources (in percentages)

№	Funding sources	1995	2000	2005	2010	2017	Difference in 2017 versus 1995 (+, -)
1.	State budget	22,9	29,2	12,2	5,6	5,5	-18,4
2.	Enterprises and organizations	47,0	27,1	46,1	33,0	29,4	-13

Table 1

3.	Funds of the population	6,6	12,0	11,4	16,0	14,5	14,1
4.	Bank loans and other funds	9,6	7,2	3,8	9,7	11,0	1,6
5.	Foreign investments and loans on the basis of state guarantees	13,9	23,2	21,7	28,3	6,5	7,4
6.	Off-budget funds	-	1,3	4,8	7,4	-	-
7.	Including State Targeted Funds, Children's Sports Development and Reconstruction Fund	-	-	-	-	12,7	10,1

Source: Based on data from the State Statistics Committee of the Republic of Uzbekistan

Foreign investments under government guarantee made up 13.9% in 1995 and 6.5% in 2016, an increase of 7.4% compared to 1995. The share of bank loans and other funds was 9.6% in 1995, and increased by 0.5% in 2017 to 11.0%. It should be noted that the share of investments in fixed assets from the State Targeted Funds, the Fund for the Development and Reconstruction of Children's Sports in 2014 amounted to 10.9% in 2015 and 12.7% in 2017.

The above-mentioned sources of funds can be used by enterprises to expand their production capacities, to create new industries, to upgrade or to technologically modernize, to increase working capital. Currently, the state provides subsidies and other subsidies for the financial support of many businesses. It is also important to provide tax incentives to enterprises, especially those with newly established foreign investment or other small and medium-sized enterprises, on the basis of government support policies. Enterprises do not pay taxes during this grace period and direct these funds to expand their production. In addition, businesses can obtain additional funds by selling or renting fixed assets and other property they do not need.

Bank loans play a special role in financing the distribution of investments through various sources. Taking this into account, since the first years of independence great attention has been given to the development of the banking system in the country. Dozens of laws and regulations, instructions and measures have been developed over a short period of time to reform the banking system. Currently, a number of commercial banks are operating in the country. They provide loans to all businesses in the country to develop their businesss.

As a result of the decisions taken on liberalization of the economy and further deepening of reforms, excessive interference, unnecessary inspections of economic entities, as well as negative forces that hinder their activities were eliminated. In addition, the commercial banks are gradually eliminating the need for lending by commercial banks, demanding surplus documents and delays in lending.

From year to year the attraction of population's funds to finance many investment projects on the basis of privatization and liberalization in the economy of the Republic is increasing year by year. In this regard, it should be noted that in the economies of the developed countries, public funds are a necessary source of funding for investment projects. The development of the securities market in both developed and developing countries is the basis for direct public investment. Securities market is also developing in the country, the savings of the population are carried out in commercial banks, which are used for short-term lending.

Based on the results of the research, it is advisable to use a number of measures, including the use of available funds on pension funds and plastic cards on the basis of the population's own preferences and certain incentives and incentives.

Addressing foreign sources of investment resources for the Republic of Uzbekistan is largely dependent on the need to address both strategic and current issues of the modern era in the context of modernization and diversification of the economy. The most important of these tasks are:

- eliminating regional disproportions in economic and social development;
- strengthening the country's export potential;
- development of import-substituting industries;

- Creation of private and mixed sectors of the economy, promoting the development of competitive environment;

- improvement of market infrastructure;
- advanced foreign technology, know-how and managerial experience.

Liberalization of the economy opened the way for foreign investors to approach the key sectors of the Uzbek economy. At present, foreign investments in ferrous and non-ferrous metallurgy account for 63.5%, 19.8% of the total foreign direct investment in the oil and gas sector, and foreign investment in total capital (Table 2).

Table 2
Main indicators of investment activity in fixed assets in the Republic of Uzbekistan (billions soums)

Indicators	1995	2000	2005	2010	2015	2017	2017 versus 1995 difference (+,-)
Total investment in fixed assets	88,9	744, 5	3165, 2	15338, 7	41670,5	60719,2	60630,3
Including foreign investments and loans	12,4	172, 4	687,0	4340,8	8309,5	16309,2	16296,8

Source: Based on data from the State Statistics Committee of the Republic of Uzbekistan.

According to the table, in 2017, compared to 1995, investment in fixed assets was \$ 60,630.3 billion. Foreign investments amounted to UZS 16296.8 billion. soums, which exceeds the corresponding figure of 60719.2 billion soums. and UZS 16309.2 bn. soums. In 2017, compared to 2016, investment in fixed assets increased by 7.1% and foreign investment and loans by 41.0%, and foreign direct investment increased by 40.7%.

This, in turn, indicates that the share of foreign investors in the fixed capital for the development of the national economy is increasing year by year and the potential of the investment climate in the country is increasing. In our view, one of the most important problems in attracting and using foreign investment is the right choice of investment, the main criteria for choosing foreign investment, and the type of activity (technological complex, scientific, etc.) and project investments (small, medium, large):

In the conditions of modernization and diversification of the current economy, the region has sufficient investment potential, but the creation of contractual joint ventures with major projects (eg, petrochemicals) where production modernization is required, as well as the creation of new joint ventures in all regions of the country. Attention should be paid to the attraction of foreign investments for modernization and technological renovation it is advisable to increase the investment attractiveness of their investments.

Foreign investors are of great interest in the creation of such joint ventures in the country's raw materials industry, first of all, in the mining and fuel and energy sectors. Here, in comparison with joint ventures, contracts for the distribution of products, especially in the field of exploration and hydrocarbon mining, are more profitable. The advantage of this type of contract is that it is a simple and effective mechanism for gaining private share of income, tax and legal regime of contracts.

Concession, that is, the right of foreign investors to use renewable and non-renewable natural resources, to carry out other types of economic activities on a long-term lease basis, is one of the most effective ways to increase the export potential of the country. However, the use of this method of attracting foreign capital requires a thorough functioning of the mechanism of state regulation and legal support of this process.

Weak frameworks for internal savings, and the lack of a two-way mechanism of capital circulation between more efficient and less efficient businesses and sectors within the country, as well as across sectors and sectors of the country, diminish economic stability and growth opportunities. Therefore, the implementation of Uzbekistan's long-term development strategy, attraction of foreign capital and domestic investment, requires the creation of a full-fledged stock market, with a mechanism to transfer capital from the mass investor to the real owner.

The availability of stock markets and stock culture in the country ensures free demand and supply for capital. This will allow the real sector of the market economy to recover and attract new investments in

its development. Investment institutions, in turn, diversify their portfolios across not only businesses but also medium and even small businesses. In other words, the process of privatization should go through the scheme of privileges, not the search for strategic investors-monopolists.

The main advantage of the proposed scheme is the real opportunity to reduce the risk of these investments (even in the less profitable sectors) by investing in production and distributing investments among many participants. At the same time, investing in only the primary sectors of the economy with the least risk increases for a long time may deviate from the traditional trends of foreign investors in developing countries.

If the sale or transfer of a business to a company is complicated by its search and then choosing the most profitable and financially viable company in Uzbekistan, there are no obstacles to capital mobilization in the proposed approach. There is no risk that the project will be suspended due to the absence of the claimants, because at least some of the emissions will be sold. At the same time, the state may leave a controlling stake or a stock of its own shares and retain control over the enterprise.

Managing the enterprise, its restructuring, banking services, and, if necessary, the involvement of foreign firms, pursuant to the privatization approach, are carried out by the relevant structures of the republic. This, in turn, will give impetus to the development of the national economy.

Of course, portfolio investing requires an enterprise auditing by international standards, advertising abroad, listing stocks in the global stock markets, conducting other initial business, additional costs and time. In the end, however, all of these costs are justified, leading to increased investment in production and, consequently, increased production.

In the context of economic modernization, it is important to emphasize that economic growth requires strategic attention, mainly by attracting foreign capital and investment in the real sector of the economy through domestic savings. Most economists, while looking at domestic sources of investment in the country, envisaged private equity of enterprises and organizations of all forms of ownership, except for the state budget.

This issue coincided with the initial stage of market relations. This initial period is characterized by socioeconomic equilibrium, declining production, high inflation and low incomes. The role and importance of savings as a source of investment potential increases with deepening of market reforms, economic growth, and increased cash income and the loss of economic uncertainty in the long run.

It is now advisable to consider the nature of savings that are the source of investment. Population savings are the sum of accumulated cash reserves that are collected only when income exceeds expenses, and the proportion of the difference between income and its consumed portion is determined.

The savings of the population are collected by banks and other financial institutions and participate in the financing of capital investments. Banks and financial institutions, in turn, place free funds in various forms of financial and material wealth, lending them to investment entities.

The size of the population's savings and their investment orientation largely depend on their savings goals. The purpose of paying the savings is to invest in future consumption or to secure a high return.

Long-term savings play an important role in investing in the Republic of Uzbekistan. These funds are formed by accumulation in banks' fixed-term accounts or by investing in long-term financial assets, such as stocks and bonds. It is advisable to involve not only banks at different levels, but also other investment institutions in the collection and rational distribution of such funds. Of course, in distributing investments it is necessary to pay close attention to the principles of investment and to consider the following principles of investment distribution:

In the allocation of investments, it is important to focus on price, average price growth, growth, or acceleration in implementing investment strategies. Investment decisions should be based on the evaluation of investment projects. Whatever investment strategies you choose, you need to maintain a consistent approach. In other words, the value of a good investment project should not be considered by the investor.

In the distribution of investments, low risk of investing is significant and, if purchased at a lower cost than the actual cost of the investment project, the risk level is slightly lower. The best risk mitigation plan is to buy an investment below the real cost.

3. CONCLUSION AND RECOMMENDATIONS

In conclusion, it is important that you do not lose your invested investments, so that you can use strategies for managing your diversification. The volatility of the market increases the risk of return on investment. If the risk is not controlled, there will be significant losses through competition in the markets. In this context, non-investment in existing investment projects should be one of the priority investment principles.

As a result of the consistent implementation of economic reforms, existing enterprises in the country are developing and becoming financially stable. In this regard, new funds for self-financing are being created at the enterprises for modernization and technical equipment modernization.

To summarize the above, we can conclude that in order to attract savings and to invest heavily in the economy:

- > strengthening macroeconomic stability;
- increasing the reliability of invested funds, providing them with guarantees of the insurance system;
- ➤ Using the resources of the stock market to direct the population to invest;
- Ensure the return on investment compared to the inflation rate.

Studying appropriate dynamic models, taking into account the risks and uncertainties in the investment efficiency of the inter-sectoral investment allocation, is not only scientific but theoretical, it also has important practical implications for determining current and future measures of socio-economic development of the country. a comprehensive account of the impact of factors, and the development of economic development programs in terms of the impact of these processes Irish necessary, and their consistent implementation.

REFERENCES

- 1. Baikhonov B. (2017). Branches activity prospects of economy in the Republic of Uzbekistan. // Bulletin of Science and Practice, (7), 101-106. doi:10.5281/zenodo.826501
- 2. Bayxonov B.T., Rasulova N. Ozbekistan Cumhuriyeti ekonomisinde yatırımlardan yararlanma surecleri. // Sakarya Ekonomi Dergisi Sayı 82–Turkiye, 2014 y. 58-60.
- 3. Chan D.Y. «Application of extent analysis method in fuzzy AHP». European Journal of Operation Research, 95, pp. 649-655. 1996.
- 4. Geske R. The valuation of compound options. Journal of Financial Economics, 7, pp. 63-81. 1979.
- 5. Huang X. «Optimal project selection with random fuzzy parameters». Int. J.Production Economics, 106, pp. 513-522. 2007.
- 6. Iwamura, K., Liu, B. «Chance constrained integer programming models for capital budgeting in fuzzy environments». Journal of the Operational Research Society, 49, pp. 854-860. 1998.
- 7. Kahraman C., Cebeci U. and Ruan D. «Multi-attribute comparison of catering service companies using fuzzy AHP: the case of Turkey». International Journal of Production Economics, 2004. 87, pp. 171-184.
- 8. Kahraman C., Ruan D., Tolga E. Capital budgeting techniques using discounted fuzzy versus probabilistic cash flows. Information Sciences, 142, pp. 57-76. 2002.
- 9. Lee, J.W. and Kim, S.H. «Using analytic network process and goal programming for interdependent information system project selection». Computers & Operations Research, 27, pp. 367-382. 2000.
- 10. Lefley, F. and Sarkis, J. «Applying the FAP model to the evaluation of strategic information technology projects». International Journal of Enterprise Information Systems, 1, pp. 69-90. 2005.
- 11. Liang, G.S. and Wang, M.J. «A fuzzy multi criterion decision making for facility site selection». International Journal of Production Research, 1991. 29, pp. 2313-2330.
- 12. Mohamed S., Mc Cowan A.K. Modelling project investment decisions under uncertainty using possibility theory. Int. J. Project Management, 19, pp. 231-241. 2001.
- 13. Mohanty R.P., Agarwal R., Choudhury A.K. and Tiwari, M.K. «A fuzzy ANP-based approach to R&D project selection: a case study», Int. J. Production Research, 43, pp. 5199-5216. 1994.
- 14. Saaty T. How to make a decision: The Analytic Hierarchy Process. European Journal of Operational Research, 48, pp. 9-26. 1990.